

Message Text

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17

ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-07 NEA-10 ISO-00

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FEA-01 PA-01 PRS-01 /123 W

----- 129473

R 180702Z FEB 76

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 5632

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BAGHDAD

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

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E.O. 11652: N/A

TAGS: ENRG, IR

SUBJECT: GOI ANNOUNCES PRICE REDUCTION ON IRANIAN HEAVY CRUDE

1. BEGIN UNCLASSIFIED

THE NATIONAL IRANIAN OIL COMPANY (NIOC) ANNOUNCED ON FEBRUARY 16 THAT THE "OPEC MARKET PRICE" OF IRANIAN HEAVY CRUDE OIL WILL BE REDUCED BY 9.5 CENTS. THE EFFECTIVE PRICE, RETROACTIVE TO FEBRUARY 14, THUS BECOMES DOLLARS 11.40. ENGLISH LANGUAGE
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KAYHAN FOR FEBRUARY 17 QUOTED OFFICIAL SOURCES AS SAYING THAT

THE PRICE REDUCTION WAS TO BRING THE PRICE OF IRANIAN HEAVY INTO MORE COMPETITIVE ALIGNMENT WITH OTHER PERSIAN GULF CRUDES. THE KAYHAN ARTICLE WENT ON TO STATE THAT IRAN HAD DEFERRED MAKING THE PRICE REDUCTION IN THE HOPE OF OBTAINING AN OPEC DECISION ON THE MEANS BY WHICH OPEC PRODUCERS WOULD MAKE PRICE ADJUSTMENTS BASED ON GRAVITY, SULPHUR CONTENT AND FREIGHT DIFFERENCES. GIVEN THE UNLIKELIHOOD OF AN EARLY OPEC DECISION ON SUCH A MECHANISM, IRAN DECIDED TO EMULATE SAUDI ARABIA AND KUWAIT AND MAKE UNILATERAL CUT "TO REFLECT WORLD PRICES."

END UNCLASSIFIED

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COMMENT: THE GOI'S MOVE AT THIS TIME IS SOMETHING OF A SURPRISE, AS NIOC HAD INTIMATED TO CONSORTIUM MEMBERS THAT THE LONG-PLANNED 9.5 CENT REDUCTION IN THE PRICE OF HEAVY CRUDE WOULD BE DEFERRED UNTIL CONSORTIUM AND GOI HAD REACHED AGREEMENT ON THEIR FUTURE RELATIONSHIP. IN ANY CASE, PRICE REDUCTION CONSTITUTES TARDY AND PARTIAL RECOGNITION THAT PRICE OF IRANIAN HEAVY WAS OUT OF LINE WITH THOSE OF COMPARABLE PERSIAN GULF CRUDES (E.G., ARAB MEDIUM AND KUWAIT). TIMING MAY BE MORE RELATED TO NIOC'S EMBARRASSING LACK OF SUCCESS IN SELLING ITS OWN SHARE OF IRANIAN HEAVY THAN TO NEGOTIATIONS WITH CONSORTIUM.

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